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RHEBAAA/DEPT OF ENERGY WASHDC
RUCPDO/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEAIIA/CIA WASHDC
RHEFAAA/DIA WASHDC
RHEHNSC/NSC WASHDC 1235
RUEKJCS/SECDEF WASHDC 1151
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SUBJECT: KAZAKHSTAN: ECONOMIC AND ENERGY UPDATE, MAY 24-JUNE 6

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11. SUMMARY: This information is drawn primarily from the
Kazakhstani local press and has not been verified for accuracy.

- Reorganization in Response to Five-Year Plan
- Banking Sector News
- Samruk-Kazyna Establishes New Direct Investment Fund
- May Inflation
- Critic Suggests Revising Uranium Production Plans
- KazMunaiGas Identifies 2009 Development Priorities
- Kazakhstan Development Bank Supports Gas Terminal Project
- AES Accused of Not Meeting Investment Obligations
- Indian Company Pursues Ekibastuz Management Contract
- CNPC AktobeMunaiGas Accused of Violating Kazakhstani Laws

REORGANIZATION IN RESPONSE TO FIVE-YEAR PLAN

12. In response to Nazarbaev's five-year plan for accelerated
economic diversification, which is scheduled to begin January 1,
2010, newly appointed Minister of Industry and Trade Aset Isekeshev
proposed to the Cabinet on June 3 an expanded role for his ministry
in economic development. Isekeshev's proposal specifically includes
the transfer of several key development agencies from the
Samruk-Kazyna National Welfare Fund to the Ministry of Industry and
Trade. The agencies include the State Corporation on Export
Promotion (KazNEX), the National Innovation Fund, the Center of
Engineering and Transfer of Technologies, and the seven
social-entrepreneurial corporations (i.e., small regional holding
companies modeled after the national holding company Samruk-Kazyna).

Minister Isekeshev, who also replaced Kayrat Kelimbetov as the
Chairman of the Development Bank of Kazakhstan on May 21, also
proposes that the Ministry of Industry and Trade would transfer its
small business development programs to the Ministry of Economy and
Budget Planning, and its authority over the promotion and protection
of entrepreneurship to the Competition Protection Agency. According
to Minister Isekeshev, this reorganization will concentrate
development capacities in one ministry and more efficiently advance
industrialization and diversification.

BANKING SECTOR NEWS

13. According to a Halyk Bank press release, Samruk-Kazyna has completed the final step of a two-stage process to capitalize Halyk Bank by purchasing 196,232,499 preferred shares for a total of 33 billion KZT (approximately \$219 million). Since January 2009, the bank's capital has increased by 29 percent. The press release also claimed that Halyk Bank is one of the most highly capitalized banks in Kazakhstan, which should reassure the bank's clients and partners and enhance the bank's overall position in the local financial market.

14. According to the Executive Director of KazKommertsBank (KKB), Sergey Mokrousov, KKB's net profits in 2009 will be about the same as they were in 2008: approximately \$20.3 billion tenge (\$134.8 million). Mokrousov also said that KKB is expected to repay \$1.5 billion in external debt in 2009, and \$400 million in 2010.

SAMRUK-KAZYNA ESTABLISHES NEW DIRECT INVESTMENTS FUND

15. The Kazyna Capital Management Fund, a subsidiary of Samruk-Kazyna, has established jointly with the Chinese CITIC Capital Holding Limited the "CITIC-Kazyna Investment Fund" for direct investment in Kazakhstan. Officially signed by Chinese and Kazakhstani representatives on May 26 in Beijing, the fund's initial capitalization will be \$200 million and is intended to finance infrastructure development and non-extractive industries in Kazakhstan.

INFLATION IN MAY

16. According to the Kazakhstan Statistics Agency, the year-on-year inflation rate in May was 8.4 percent. Prices for services showed the biggest increase, rising 10.9 percent year-on-year. Food prices

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grew 7 percent year-on-year, and non-food goods also rose 7 percent year-on-year.

CRITIC SUGGESTS REVISING URANIUM PRODUCTION PLANS

17. In a June 3 interview with the Interfax news agency, the Director General of the National Nuclear Center, Kairat Kadyrzhanov, attempted to allay concerns about the future of Kazakhstan's national atomic company Kazatomprom (KAP) after the arrest of former KAP Chairman Mukhtar Dzhakishev. Kadyrzhanov said that new KAP Chairman Vladimir Shkolnik has been a leading figure in the development of Kazakhstan's nuclear industry for the past 17 years, and "will rise to the challenge and breathe new life into Kazatomprom." Kadyrzhanov questioned Dzhakishev's oft-stated strategic goal for Kazakhstan to become the world's top uranium producer, saying, "It does not make sense to export raw material -- yellow cake -- at a low price, when it is possible to sell it as a value-added product." Kadyrzhanov also criticized KAP's plans to build a nuclear power plant in Aktau as inexpedient, noting that Aktau is not connected to Kazakhstan's national power grid. He instead advocated construction of a nuclear power plant near Lake Balkhash. Kadyrzhanov also stated his opposition to KAP's participation in the International Uranium Enrichment Center in Angarsk, Russia, saying, "This would make us heavily dependent on Russia."

KAZMUNAIGAS IDENTIFIES 2009 DEVELOPMENT PRIORITIES

18. On June 1, the president of national oil and gas company KazMunaiGas (KMG), Kaigeldy Kabyldin, shared his vision for KMG's future development with Kazakhstan's "Expert" magazine. Kabyldin said that in response to the ongoing financial crisis, KMG revised its 2009 investment plans, but he emphasized that KMG will continue to honor commitments to priority projects such as Kashagan, the modernization of oil refineries, the development of the petrochemical industry, and the construction of the Beineu-Bozoy Akbulak and Kazakhstan-China gas pipelines. According to Kabyldin, Kazakhstan transits more gas than it consumes. In 2008, he said, Kazakhstan transited 98 billion cubic meters (bcm) of gas, exported

10 bcm, and consumed 9 bcm.

¶9. On May 29, Kenzhebek Ibrashev replaced Askar Balzhanov as Director General of KMG production subsidiary KazMunaiGas Exploration and Production. Prior to the appointment, Ibrashev served as KMG Vice President for Exploration and Production.

KAZAKHSTAN DEVELOPMENT BANK SUPPORTS GAS TERMINAL PROJECT

¶10. On May 25, Portnews.ru reported that the Kazakhstan Development Bank will loan \$9.2 million to the Asian-European Gas Terminal Company (AEGas-Terminal) to build a gas condensate terminal at the port of Kerch, Ukraine. In May 2008, AEGas-Terminal received a first payment of \$2.15 million. The annual designed capacity of the terminal is 1 million tons, most of which will be Kazakhstani gas condensate. AEGas-Terminal plans to cooperate with Tengizchevroil and suppliers from Russia and Turkmenistan.

AES ACCUSED OF NOT MEETING INVESTMENT OBLIGATIONS

¶11. On May 27, the Governor of East Kazakhstan oblast, Berdybek Saparbayev, accused AES Corporation of meeting only 10 percent of its \$600 million investment obligations. "We want to work with this company, but so far it has shown no understanding or desire to improve performance," he complained. Saparbayev made his statement during a visit to East Kazakhstan by Minister of Energy and Mineral Resources Sauat Mynbayev.

INDIAN COMPANY SEEKS EKIBASTUZ MANAGEMENT CONTRACT

¶12. On May 25, K2Kapital reported that India's state-owned NTPC Limited is pursuing a management contract for the 4,000-megawatt Ekibastuz-1 Combined Heat and Power Plant (CHP), currently operated by Kazakhmys, and until March 20 managed by AES Corporation.

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According to the report, NTPC wants to enter Kazakhstan's power market, expand coal shipments to Kazakhstan, and participate in future tenders to operate coal mines and gas fields in Kazakhstan.

CNPC AKTOBEMUNAIGAS ACCUSED OF VIOLATING KAZAKHSTANI LAWS

¶13. On May 26, 1,000 current and former employees of CNPC AktobeMunaiGas signed a letter to Prime Minister Karim Masimov, the Parliament, the Supreme Court, the Prosecutor General's Office, the Financial Police, People's Republic of China President Hu Jintao, and the China National Petroleum Corporation (CNPC) President Wang Yan Li. The authors of the letter accused managers of CNPC AktobeMunaiGas of violating the Constitution and other laws of Kazakhstan. In particular, the employees said CNPC violates environmental laws and flares associated gas beyond legal limits. The employees also charged the company is violating Kazakhstan's labor law, alleging that CNPC pays expatriate employees more than local staff with the same training and skills. CNPC AktobeMunaiGas, which is 100 percent owned by CNPC, is the largest oil company in Aktobe oblast, and is developing the Zhanazhol and Keniyak oil and gas fields.

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